



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 20, 2018

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Auditor of State Mary Mosiman today released an audit report on the City of Knoxville, Iowa.

The City's receipts totaled \$18,509,382 for the year ended June 30, 2018, a 63% increase over the prior year. The receipts included \$3,358,930 of property tax, \$605,296 of tax increment financing, \$3,916,707 of charges for service, \$1,155,341 of operating grants, contributions and restricted interest, \$1,225,128 of capital grants, contributions and restricted interest, \$881,054 of local option sales tax, \$50,234 of unrestricted interest on investments, \$912,798 of other general receipts and \$6,403,894 of bond proceeds.

Disbursements for the year ended June 30, 2018 totaled \$12,241,928, a 15% increase over the prior year, and included \$2,316,773 for public safety, \$1,934,568 for debt service and \$1,814,432 for public works. Also, disbursements for business type activities totaled \$2,722,177.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF KNOXVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

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City of Knoxville

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Hatch	Mayor	Jan 2020
James Lane	Mayor Pro tem	Jan 2020
Craig Kelley	Council Member	Resigned July 2017
Dylan Morse (Appointed Aug 2017)	Council Member	Nov 2017
Megan Suhr	Council Member	Nov 2017
Rick Kingery	Council Member	Jan 2020
Cal Stephens	Council Member	Jan 2020
Aaron Adam	City Manager	Indefinite
Heather Ussery	Assistant City Manager	Indefinite
Jodi Bellon	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Hatch	Mayor	Jan 2020
James Lane	Mayor Pro tem	Jan 2020
Rick Kingery	Council Member	Jan 2020
Cal Stephens	Council Member	Jan 2020
Dylan Morse	Council Member	Jan 2022
Megan Suhr	Council Member	Jan 2022
Aaron Adam	City Manager	Indefinite
Heather Ussery	Assistant City Manager	Indefinite
Jodi Bellon	City Clerk	Indefinite
Robert Stuyvesant	Attorney	Indefinite

City of Knoxville



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include the financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require the financial data for the component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity which include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City of Knoxville as of June 30, 2018, or the changes in cash basis financial thereof for the year ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville as of June 30, 2018, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As discussed in Note 6 to the financial statements, City of Knoxville adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Knoxville's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2015 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on the financial statements

of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units. The financial statements for the two years ended June 30, 2013 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. We also previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unmodified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 40 through 47, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 28, 2018 on our consideration of the City of Knoxville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Knoxville's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

November 28, 2018

City of Knoxville

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Knoxville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 85%, or approximately \$7,150,000, from fiscal year 2017 to fiscal year 2018. Capital grants, contributions and restricted interest increased approximately \$528,000 and bond proceeds increased \$6,404,000.
- Disbursements of the City's governmental activities increased 16%, or approximately \$1,293,000, in fiscal year 2018 over fiscal year 2017. Public works increased approximately \$973,000 and debt service disbursements increased approximately \$248,000.
- Receipts of the City's business type activities remained consistent with the prior year at approximately \$2,967,000. Disbursements of the City's business type activities increased 12%, or approximately \$288,000,
- The City's total cash basis net position increased 66%, or approximately \$6,267,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$5,369,000 and the cash basis net position of the business type activities increased approximately \$899,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds, and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer and storm water system and municipal airport. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the airport, the storm water system and the sanitary sewer operations. The Sanitary Sewer Fund is considered a major fund of the City. The Internal Service Fund is an accounting device used to accumulate and allocate costs internally among the City's various functions.

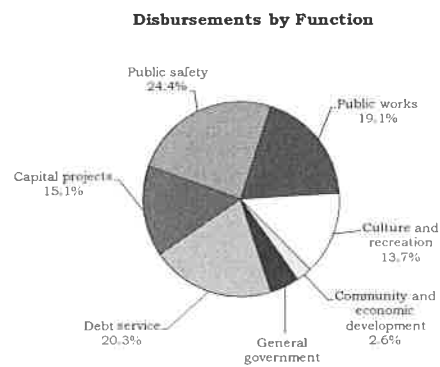
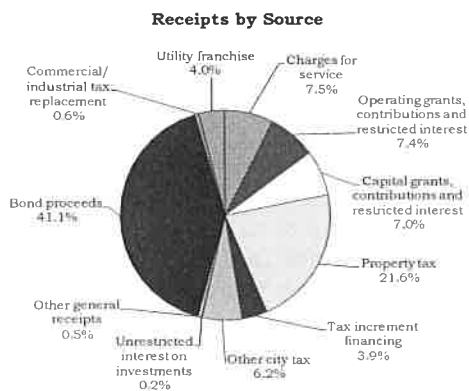
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$6.303 million to approximately \$11.672 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service	\$ 1,158	1,059
Operating grants, contributions and restricted interest	1,155	1,047
Capital grants, contributions and restricted interest	1,081	553
General receipts:		
Property tax	3,359	3,328
Tax increment financing	605	572
Other city tax	967	1,054
Commercial/industrial tax replacement	90	92
Utility franchise	620	594
Unrestricted interest on investments	24	4
Bond proceeds	6,404	-
Other general receipts	79	89
Total receipts	15,542	8,392
Disbursements:		
Public safety	2,317	2,120
Public works	1,814	841
Culture and recreation	1,307	1,135
Community and economic development	252	245
General government	456	462
Debt service	1,934	1,686
Capital projects	1,439	1,737
Total disbursements	9,519	8,226
Change in cash basis net position before transfers	6,023	166
Transfers, net	(654)	(39)
Change in cash basis net position	5,369	127
Cash basis net position beginning of year	6,303	6,176
Cash basis net position end of year	\$ 11,672	6,303



The City's total receipts for governmental activities increased 85%, or approximately \$7,150,000, over the prior year. The total cost of all programs and services increased approximately \$1,293,000, or 16%. The significant increase in receipts and disbursements was primarily the result of grant and bond proceeds received for a capital project.

The cost of all governmental activities this year was approximately \$9.5 million compared to approximately \$8.2 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$6.1 million because some of the cost was paid by those directly benefitting from the programs (approximately \$1,158,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$2,236,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2018 from approximately \$2,659,000 to approximately \$3,394,000.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service	\$ 2,759	2,659
Capital grants, contributions and restricted interest	144	270
General receipts:		
Unrestricted interest on investments	26	21
Other general receipts	38	17
Total receipts	<u>2,967</u>	<u>2,967</u>
Disbursements:		
Sewer	2,343	2,185
Airport	227	242
Storm water	152	7
Total disbursements	<u>2,722</u>	<u>2,434</u>
Change in cash basis net position before transfers	245	533
Transfers, net	654	39
Change in cash basis net position	899	572
Cash basis net position beginning of year	3,234	2,662
Cash basis net position end of year	<u>\$ 4,133</u>	<u>3,234</u>

Total business type activities receipts for the fiscal year did not change compared to last year with receipts being approximately \$2,967,000 for both years. Transfers in increased approximately \$615,000. During the year, the Enterprise, Sewer Fund received approximately \$115,000 from the Special Revenue, Urban Renewal Tax Increment Fund for an interfund loan repayment and the Enterprise, Airport Fund received \$524,000 of bond proceeds from the Capital Projects Fund for airport projects. Total disbursements for the fiscal year increased 16%, or approximately \$288,000. The cash balance increased approximately \$899,000 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$11,372,262, an increase of approximately \$5,276,000 above last year's total of \$6,095,795. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$260,064 over the prior year to \$1,745,109. Receipts increased 2.6%, or \$98,416 over the prior year. Disbursements increased 6.6%, or \$215,402.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$134,959 to \$313,434. Receipts and disbursements increased \$711,542 and \$942,947, respectively. The increases were due primarily to a federally funded street rehabilitation project which occurred during the year.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased \$147,435 to a year-end balance of \$818,756. Receipts and disbursements decreased \$84,858 and \$121,695, respectively. In addition, transfers out increased \$43,355 to \$682,421. The transfers were made to the Debt Service and Capital Project Funds to pay for street related debt and capital outlays.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$32,266, a decrease of \$186,271 from the previous year. The decrease was primarily the result of repaying an interfund loan of \$115,037 to the Enterprise, Sewer Fund during fiscal year 2018.
- The Debt Service Fund cash balance decreased \$9,621 to \$121,708. Receipts, disbursements and transfers in remained consistent with the prior year.
- The Capital Projects Fund cash balance increased approximately \$5,166,000 to a year-end balance of \$7,307,453. The increase was due to the City issuing \$6,280,000 of general obligation bonds to fund infrastructure projects, an airport runway, hangar improvements and park improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance increased \$244,357 to \$3,593,289, primarily due to repayment of an interfund loan from the Special Revenue, Urban Renewal Tax Increment Fund and a decrease in debt service disbursements.

BUDGETARY HIGHLIGHTS

The City's receipts were \$595,901 more than budgeted. This was primarily due to the City receiving more in intergovernmental and charges for service receipts in fiscal year 2018 than anticipated.

During the year ended June 30, 2018, the City exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions.

DEBT ADMINISTRATION

At June 30, 2018, the City had \$18,959,480 of bonds and other long-term debt outstanding, compared to \$14,266,847 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2018	2017
General obligation bonds	\$ 11,710	6,395
General obligation capital loan notes	395	465
Sewer revenue bonds	6,741	7,258
Capital lease	113	149
Total	\$ 18,959	14,267

Debt increased as a result of issuing \$6,280,000 of general obligation bonds during the year.

In 2018, the City's general obligation bond rating remained unchanged at A1 by national rating agencies. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of approximately \$13.0 million, including the appropriated portion of the tax increment financing rebate agreements of \$820,791, is significantly below its constitutional debt limit of approximately \$16.4 million. Additional information about the City's long-term debt is presented in Notes 3 and 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Knoxville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2019 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 2.7% versus 2.8% a year ago. This compares with the State's unemployment rate of 2.7% and the national rate of 4.0%.

These indicators were taken into account when adopting the budget for fiscal year 2019. Budgeted receipts are approximately \$11.2 million and budgeted disbursements are approximately \$16.6 million.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$5.4 million to approximately \$3.8 million by the close of fiscal year 2019.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jodi Bellon, City Clerk, 305 S. 3rd Street, Knoxville, Iowa 50138.

Basic Financial Statements

City of Knoxville

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,316,773	676,472	143,596	-
Public works	1,814,432	35,346	937,691	683,409
Culture and recreation	1,306,663	374,515	58,714	-
Community and economic development	252,090	47,710	1,618	-
General government	456,130	24,164	13,722	-
Debt service	1,934,568	-	-	-
Capital projects	1,439,095	-	-	397,380
Total governmental activities	9,519,751	1,158,207	1,155,341	1,080,789
Business type activities:				
Sewer	2,343,081	2,384,116	-	59,216
Airport	226,662	83,545	-	85,123
Storm water	152,434	290,839	-	-
Total business type activities	2,722,177	2,758,500	-	144,339
Total	\$ 12,241,928	3,916,707	1,155,341	1,225,128
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Commercial/industrial tax replacement				
Utility franchise				
Unrestricted interest on investments				
Miscellaneous				
Bond proceeds				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent fund				
Expendable:				
Streets				
Debt service				
Capital projects and equipment				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(1,496,705)	-	(1,496,705)
(157,986)	-	(157,986)
(873,434)	-	(873,434)
(202,762)	-	(202,762)
(418,244)	-	(418,244)
(1,934,568)	-	(1,934,568)
(1,041,715)	-	(1,041,715)
(6,125,414)	-	(6,125,414)
-	100,251	100,251
-	(57,994)	(57,994)
-	138,405	138,405
-	180,662	180,662
(6,125,414)	180,662	(5,944,752)
2,591,497	-	2,591,497
767,433	-	767,433
605,296	-	605,296
881,054	-	881,054
85,538	-	85,538
90,181	-	90,181
619,969	-	619,969
23,920	26,314	50,234
79,355	37,755	117,110
6,403,894	-	6,403,894
(654,037)	654,037	-
11,494,100	718,106	12,212,206
5,368,686	898,768	6,267,454
6,303,372	3,234,208	9,537,580
\$ 11,672,058	4,132,976	15,805,034
\$ 276,354	-	276,354
313,434	-	313,434
153,974	344,735	498,709
7,307,453	668,709	7,976,162
1,575,938	-	1,575,938
2,044,905	3,119,532	5,164,437
\$ 11,672,058	4,132,976	15,805,034

City of Knoxville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2018

	Special Revenue			
	General	Road Use Tax	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 1,637,935	-	-	-
Tax increment financing	-	-	-	605,296
Other city tax	125,178	-	881,054	-
Licenses and permits	669,066	-	-	-
Use of money and property	51,135	-	-	2,904
Intergovernmental	154,668	1,616,476	-	-
Charges for service	926,035	-	-	-
Special assessments	4,136	-	-	-
Miscellaneous	105,715	4,624	-	-
Total receipts	3,673,868	1,621,100	881,054	608,200
Disbursements:				
Operating:				
Public safety	1,762,228	-	-	-
Public works	30,260	1,615,319	-	-
Culture and recreation	1,092,716	-	-	-
Community and economic development	227,293	-	-	-
General government	379,607	-	-	-
Debt service	-	-	-	679,434
Capital projects	-	-	51,198	-
Total disbursements	3,492,104	1,615,319	51,198	679,434
Excess (deficiency) of receipts over (under) disbursements	181,764	5,781	829,856	(71,234)
Other financing sources (uses):				
Bond proceeds and \$123,894 of premium	-	-	-	-
Transfers in	152,300	41,980	-	-
Transfers out	(74,000)	(182,720)	(682,421)	(115,037)
Total other financing sources (uses)	78,300	(140,740)	(682,421)	(115,037)
Change in cash balances	260,064	(134,959)	147,435	(186,271)
Cash balances beginning of year	1,485,045	448,393	671,321	218,537
Cash balances end of year	\$ 1,745,109	313,434	818,756	32,266
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for:				
Streets	-	313,434	-	-
Debt service	-	-	-	32,266
Capital projects and equipment	-	-	-	-
Other purposes	-	-	818,756	-
Unassigned	1,745,109	-	-	-
Total cash basis fund balances	\$ 1,745,109	313,434	818,756	32,266

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
749,725	-	891,079	3,278,739
-	-	-	605,296
17,708	-	22,843	1,046,783
-	-	-	669,066
-	1,141	1,589	56,769
22,038	-	24,959	1,818,141
-	-	-	926,035
-	-	-	4,136
-	398,781	18,928	528,048
789,471	399,922	959,398	8,933,013
-	-	501,370	2,263,598
-	-	144,664	1,790,243
-	-	189,974	1,282,690
-	-	22,814	250,107
-	-	66,496	446,103
1,205,848	49,285	-	1,934,567
-	1,387,897	-	1,439,095
1,205,848	1,437,182	925,318	9,406,403
(416,377)	(1,037,260)	34,080	(473,390)
-	6,403,894	-	6,403,894
406,756	458,385	-	1,059,421
-	(659,280)	-	(1,713,458)
406,756	6,202,999	-	5,749,857
(9,621)	5,165,739	34,080	5,276,467
131,329	2,141,714	999,456	6,095,795
121,708	7,307,453	1,033,536	11,372,262
-	-	276,354	276,354
-	-	-	313,434
121,708	-	-	153,974
-	7,307,453	-	7,307,453
-	-	757,182	1,575,938
-	-	-	1,745,109
121,708	7,307,453	1,033,536	11,372,262

City of Knoxville

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2018

Total governmental funds cash balances (page 19) \$ 11,372,262***Amounts reported for governmental activities in the Cash Basis
Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to change the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

299,796**Cash basis net position of governmental activities (page 17)** \$ 11,672,058**Change in cash balances (page 19)** \$ 5,276,467***Amounts reported for governmental activities in the Cash Basis
Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

92,219**Change in cash basis net position of governmental activities (page 17)** \$ 5,368,686

See notes to financial statements.

City of Knoxville
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2018

	Enterprise			Internal Service
	Sewer	Nonmajor	Total	Self Insurance
Operating receipts:				
Use of money and property	\$ 7,794	81,160	88,954	-
Charges for service	2,355,900	290,839	2,646,739	202,918
Miscellaneous	20,422	2,385	22,807	-
Total operating receipts	2,384,116	374,384	2,758,500	202,918
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	53,176
Public works	-	-	-	24,189
Culture and recreation	-	-	-	23,973
Community and economic development	-	-	-	1,983
General government	-	-	-	10,027
Business type activities	865,304	120,889	986,193	-
Total operating disbursements	865,304	120,889	986,193	113,348
Excess of operating receipts over operating disbursements	1,518,812	253,495	1,772,307	89,570
Non-operating receipts (disbursements):				
Intergovernmental	-	85,123	85,123	-
Interest on investments	26,314	-	26,314	2,649
Project reimbursement	59,216	-	59,216	-
Insurance proceeds	17,572	-	17,572	-
Capital projects	(784,274)	(258,207)	(1,042,481)	-
Debt service	(693,503)	-	(693,503)	-
Miscellaneous	20,183	-	20,183	-
Net non-operating receipts (disbursements)	(1,354,492)	(173,084)	(1,527,576)	2,649
Excess of receipts over disbursements	164,320	80,411	244,731	92,219
Transfers:				
Transfers in	115,037	574,000	689,037	-
Transfers out	(35,000)	-	(35,000)	-
Total transfers in (out)	80,037	574,000	654,037	-
Change in cash balances	244,357	654,411	898,768	92,219
Cash balances beginning of year	3,348,932	(114,724)	3,234,208	207,577
Cash balances end of year	\$ 3,593,289	539,687	4,132,976	299,796
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 344,735	-	344,735	-
Capital projects and equipment	668,709	-	668,709	-
Unrestricted	2,579,845	539,687	3,119,532	299,796
Total cash basis fund balances	\$ 3,593,289	539,687	4,132,976	299,796

See notes to financial statements.

City of Knoxville

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

The City of Knoxville is a political subdivision of the State of Iowa located in the Marion County. It was first incorporated in 1855 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Knoxville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Knoxville (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

Excluded Component Units

The Knoxville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Fire/Rescue Association of Knoxville, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Association's Board of Trustees shall be a minimum of three and not more than seven in number.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission, Marion County Joint 911 Service Board, Marion County/Warren County Drug Task Force, Marion County for Public Safety Dispatch and Communications Operation and Central Iowa Regional Transportation Planning Alliance.

Related Organization

The City Council Members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by local option sales tax resolution.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following proprietary fund:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2018, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2018, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,173,195 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the IPAIT investments. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds/notes and revenue bonds/notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 1,300,000	331,049	524,000	156,400	1,824,000	487,449
2020	1,410,000	271,431	541,000	146,695	1,951,000	418,126
2021	1,265,000	243,052	554,000	136,008	1,819,000	379,060
2022	1,295,000	215,392	576,000	124,488	1,871,000	339,880
2023	1,045,000	185,670	593,000	111,945	1,638,000	297,615
2024-2028	3,195,000	663,074	2,899,000	334,978	6,094,000	998,052
2029-2033	1,490,000	315,655	1,054,000	50,818	2,544,000	366,473
2034-2037	1,105,000	94,556	-	-	1,105,000	94,556
Total	\$12,105,000	2,319,879	6,741,000	1,061,332	18,846,000	3,381,211

Revenue Bonds/Notes

On February 16, 2010, the City entered into a state revolving loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$2,216,056 of sewer revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. During the year ended June 30, 2018, the City paid principal of \$122,000 and interest of \$63,750 on the bonds. At June 30, 2018, the outstanding principal balance was \$2,003,000.

On June 19, 2015, the City entered into a loan agreement with the Iowa Finance Authority for the issuance of sewer revenue bonds of up to \$2,518,000 with interest at 1.75% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa to pay the cost of constructing certain wastewater treatment facilities. During the year ended June 30, 2018, the City paid principal of \$135,000 and interest of \$37,852 on the bonds. At June 30, 2018, the outstanding principal balance was \$2,028,000.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$7,693,056 of sewer revenue bonds/notes issued in February 2010, April 2015 and June 2015. The bonds/notes are payable solely from sewer customer net receipts and are payable through 2031. For the year ended June 30, 2018, annual principal and interest payments on the bonds/notes required 45% of net receipts. The total principal and interest remaining to be paid on the bonds/notes is \$7,802,332. For the current year, principal and interest paid and total customer net receipts were \$682,282 and \$1,518,812, respectively.

The resolutions providing for the issuance of sewer revenue bonds/notes include the following provisions:

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond/note sinking accounts within the Enterprise Funds for the purpose of making the bond/note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer reserve until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal and interest on the bonds/notes when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the average annual installments or principal and interest on the bonds/notes falling due in the same year.

(4) Capital Lease Purchase Agreement

The City entered into a capital lease purchase agreement to lease a rescue vehicle. The following is a schedule of the future minimum lease payments, including interest at 3.4% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2018:

Year ending June 30,	Amount
2019	\$ 40,427
2020	40,428
2021	<u>40,428</u>
Total minimum lease payments	121,283
Less amount representing interest	<u>(7,803)</u>
Present value of net minimum lease payments	<u>\$ 113,480</u>

(5) Pension Plan

Iowa Public Employees' Retirement System (IPERS)

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member’s beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member’s accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS’ Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City’s contributions to IPERS for the year ended June 30, 2018 totaled \$163,467.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$1,212,195 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the City’s proportion was 0.018198%, which was a decrease of 0.000517% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$194,342, \$533,428 and \$302,541, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
City's proportionate share of the net pension liability	\$ 2,166,478	1,212,195	410,595

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description – MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issues a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at www.mfprsi.org.

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66% of the member's average final compensation. Members who perform more than 22 years of service receive an additional 2% of the member's average final compensation for each additional year of service, up to a maximum of 8 years. Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen, plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50% surviving spouse benefit.

Active members at least 55 years of age with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4 or 5 year DROP period. When electing to participate in DROP, the member signs a contract stating the member will retire at the end of the selected DROP period. During the DROP period, the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

Disability and Death Benefits – Disability benefits may be either accidental or ordinary. Accidental disability is defined as a permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50% of the member's average final compensation for those with 5 or more years of service or the member's service retirement benefit calculation amount and 25% of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50% of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40% of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50% of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased annually in accordance with Chapter 411.6 of the Code of Iowa, which provides a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions – Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2018.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1% of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa, the City's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 27.68% for the year ended June 30, 2018.

The City's contributions to MFPRSI for the year ended June 30, 2018 totaled \$197,858.

If approved by the State Legislature, state appropriations may further reduce the City's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa, therefore, is considered to be a non-employer contributing entity in accordance with the provisions of Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans.

There were no state appropriations to MFPRSI during the year ended June 30, 2018.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$1,580,668 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the MFPRSI relative to the contributions of all MFPRSI participating employers. At June 30, 2017, the City's proportion was 0.269520%, which was a decrease of 0.007382% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City pension expense, deferred outflows of resources and deferred inflows totaled \$240,471, \$577,310 and \$336,478, respectively.

Actuarial Assumptions –The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation	3.00%.
Salary increases	4.50 to 15.00% including inflation.
Investment rate of return	7.50% net of investment expense including inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2002 through June 30, 2012.

Postretirement mortality rates were based on the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), with five years projection of future mortality improvement with Scale BB.

The long-term expected rate of return on MFPRSI investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Large cap	5.5%
Small cap	5.8
International large cap	7.3
Emerging markets	9.0
Emerging markets debt	6.3
Private non-core real estate	8.0
Master limited partnerships	9.0
Private equity	9.0
Core plus fixed income	3.3
Private core real estate	6.0
Tactical asset allocation	6.4

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions will be made at 9.40% of covered payroll and the City's contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the MFPRSI's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on MFPRSI's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,597,733	1,580,668	734,730

MFPRSI's Fiduciary Net Position – Detailed information about MFPRSI's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at www.mfprsi.org.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members range from \$364 for single coverage to \$894 for family coverage. For the year ended June 30, 2018, the City contributed \$416,696 and plan members eligible for benefits contributed \$74,424 to the plan. At June 30, 2018, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by City of Knoxville are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	3
Active employees	51
Total	54

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused holiday and vacation hours for subsequent use or for payment upon termination, retirement or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit cost upon retirement. The City allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2018, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Holiday	\$ 37,000
Vacation	150,000
Sick leave	31,000
Compensatory time	38,000
Total	<u>\$ 256,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2018.

(8) Interfund Receivable/Payable

In prior years, the Enterprise, Sewer Fund loaned the Special Revenue, Urban Renewal Tax Increment Fund \$321,321 to pay project costs prior to the collection of tax increment financing receipts. The loan is to be repaid, with interest of 2% annually, as tax increment financing receipts are collected. During the year ended June 30, 2018, the remaining principal balance outstanding of \$115,037 was repaid but the City has not paid the interest on the loan estimated at approximately \$15,000.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	\$ 117,300
	Enterprise:	
	Sewer	35,000
		<u>152,300</u>
Special Revenue: Road Use Tax	Capital Projects	41,980
Debt Service	Special Revenue:	
	Road Use Tax	45,841
	Local Option Sales Tax	360,915
		<u>406,756</u>
Capital Projects	Special Revenue:	
	Road Use Tax	136,879
	Local Option Sales Tax	321,506
		<u>458,385</u>
Enterprise: Sewer	Special Revenue: Urban Renewal Tax Increment	<u>115,037</u>
Airport	General	74,000
	Capital Projects	500,000
		<u>574,000</u>
Total		<u>\$ 1,748,458</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Healthcare Facilities Revenue Bonds

In August 2014, the City issued a total of \$6,527,480 of revenue bonds and \$2,122,520 of revenue refunding bonds for the Knoxville Community Hospital under the provisions of Chapter 419 of the Code of Iowa, of which \$8,084,014 is outstanding at June 30, 2018. The bonds and related interest are payable solely from the revenues of the Knoxville Community Hospital and Clinic and the bond principal and interest do not constitute liabilities of the City.

(11) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 775 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The City's contributions to the Pool for the year ended June 30, 2018 were \$132,595.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$500,000 per claim. Claims exceeding \$500,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation in the amount of \$1,000,000. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Construction Contracts

At June 30, 2018, the City had entered into construction contracts totaling approximately \$8,409,000 for various projects. At June 30, 2018, these projects will require future payments of approximately \$5,066,000 upon completion.

(13) Development and Rebate Agreements

The City has entered into six development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developers will be rebated for a period ranging from five to fifteen years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2018, the City rebated \$679,434 of incremental property tax to the developers. The outstanding principal balance on these agreements at June 30, 2018 is \$1,674,401.

No bonds or notes, were issued for these projects. To the extent there is insufficient incremental property tax available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

These agreements are not a general obligation of the City. However, the debt payments in the succeeding year on four agreements with annual appropriation clauses and all of the amount to be rebated for the remaining agreement are subject to the constitutional debt limitation of the City.

(14) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2018, the City abated \$254,650 of property tax under the urban renewal and economic development agreements.

(15) Employee Health Insurance Plan

The Internal Service, Self-Insurance Fund was established to account for the partial self-funding of the City's health insurance benefit plan. The plan is funded by both employee and City contributions and is administered through a service agreement with Employee Benefit Systems. The agreement is subject to automatic renewal provisions. The City assumes liability for claims up to the individual stop loss limitation of \$5,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Internal Service, Self-Insurance Fund are recorded as disbursements from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Internal Service, Self-Insurance Fund. The City contribution for the year ended June 30, 2018 was \$158,569.

Other Information

City of Knoxville
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 3,278,739	-	-
Tax increment financing	605,296	-	-
Other city tax	1,046,783	-	-
Licenses and permits	669,066	-	-
Use of money and property	56,769	117,917	2,649
Intergovernmental	1,818,141	85,123	-
Charges for service	926,035	2,849,657	202,918
Special assessments	4,136	-	-
Miscellaneous	528,048	119,778	-
Total receipts	8,933,013	3,172,475	205,567
Disbursements:			
Public safety	2,263,598	53,176	53,176
Public works	1,790,243	24,189	24,189
Culture and recreation	1,282,690	23,973	23,973
Community and economic development	250,107	1,983	1,983
General government	446,103	10,027	10,027
Debt service	1,934,567	-	-
Capital projects	1,439,095	-	-
Business type activities	-	2,722,177	-
Total disbursements	9,406,403	2,835,525	113,348
Excess (deficiency) of receipts over (under) disbursements	(473,390)	336,950	92,219
Other financing sources, net	5,749,857	654,037	-
Excess of receipts and other financing sources over disbursements and other financing uses	5,276,467	990,987	92,219
Balances beginning of year	6,095,795	3,441,785	207,577
Balances end of year	\$ 11,372,262	4,432,772	299,796

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
3,278,739	3,276,614	3,276,614	2,125
605,296	450,887	597,410	7,886
1,046,783	1,642,823	1,642,823	(596,040)
669,066	38,900	38,900	630,166
172,037	156,784	168,564	3,473
1,903,264	1,111,873	1,630,356	272,908
3,572,774	3,413,231	3,433,131	139,643
4,136	7,000	7,000	(2,864)
647,826	414,600	509,222	138,604
11,899,921	10,512,712	11,304,020	595,901
2,263,598	2,287,213	2,287,213	23,615
1,790,243	882,306	1,470,992	(319,251)
1,282,690	1,231,624	1,231,624	(51,066)
250,107	254,031	254,031	3,924
446,103	442,121	442,121	(3,982)
1,934,567	1,636,745	1,636,745	(297,822)
1,439,095	2,842,588	3,669,410	2,230,315
2,722,177	2,804,552	2,804,552	82,375
12,128,580	12,381,180	13,796,688	1,668,108
(228,659)	(1,868,468)	(2,492,668)	2,264,009
6,403,894	1,500,000	6,237,309	166,585
6,175,235	(368,468)	3,744,641	2,430,594
9,330,003	9,274,423	9,274,423	55,580
15,505,238	8,905,955	13,019,064	2,486,174

City of Knoxville

Notes to Other Information – Budgetary Reporting

June 30, 2017

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,415,508. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions.

City of Knoxville
Schedule of the City's Proportionate Share of the Net Pension Liability

For the Last Four Years*
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2018	2017	2016	2015
City's proportion of the net pension liability	0.018198%	0.018715%	0.017227%	0.016296%
City's proportionate share of the net pension liability	\$ 1,212	1,178	851	646
City's covered payroll	\$ 1,652	1,563	1,469	1,457
City's proportionate share of the net pension liability as a percentage of its covered payroll	73.37%	75.37%	57.93%	44.34%
IPERS' net position as a percentage of the total percentage of the total pension liability	82.21%	81.82%	85.91%	87.61%

Municipal Fire and Police Retirement System of Iowa

	2018	2017	2016	2015
City's proportion of the net pension liability	0.269520%	0.276902%	0.255162%	0.254700%
City's proportionate share of the net pension liability	\$ 1,581	1,731	1,199	923
City's covered payroll	\$ 764	750	668	647
City's proportionate share of the net pension liability as a percentage of its covered payroll	206.94%	230.80%	179.49%	142.66%
MFPRSI's net position as a percentage of the total percentage of the total pension liability	80.60%	78.20%	83.04%	86.27%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Knoxville
Schedule of City Contributions

For the Last Ten Years
(In Thousands)

Other Information

Iowa Public Employees' Retirement System

	2018	2017	2016	2015
Statutorily required contribution	\$ 163	150	142	134
Contributions in relation to the statutorily required contribution	(163)	(150)	(142)	(134)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 1,790	1,652	1,563	1,469
Contributions as a percentage of covered payroll	9.11%	9.08%	9.09%	9.12%

Municipal Fire and Police Retirement System of Iowa

	2018	2017	2016	2015
Statutorily required contribution	\$ 202	198	208	203
Contributions in relation to the statutorily required contribution	(202)	(198)	(208)	(203)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 787	764	750	668
Contributions as a percentage of covered payroll	25.67%	25.92%	27.73%	30.39%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
133	118	110	101	91	91
(133)	(118)	(110)	(101)	(91)	(91)
-	-	-	-	-	-
1,457	1,324	1,322	1,453	1,368	1,433
9.13%	8.91%	8.32%	6.95%	6.65%	6.35%

2014	2013	2012	2011	2010	2009
195	157	143	112	97	103
(195)	(157)	(143)	(112)	(97)	(103)
-	-	-	-	-	-
647	601	578	562	570	549
30.14%	26.12%	24.74%	19.93%	17.02%	18.76%

City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2018

Iowa Public Employees' Retirement System

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

City of Knoxville

Notes to Other Information – Pension Liability

Year ended June 30, 2018

Municipal Fire and Police Retirement System

Changes of benefit terms: There were no significant changes of benefit terms.

Changes of assumptions: The 2017 valuation added five years projection of future mortality improvement with Scale BB.

The 2016 valuation changed postretirement mortality rates to the RP-2000 Blue Collar Combined Healthy Mortality Table with males set-back two years, females set-forward one year and disabled individuals set-forward one year (male only rates), with no projection of future mortality improvement.

The 2015 valuation phased in the 1994 Group Annuity Mortality Table for postretirement mortality. This resulted in a weighting of 1/12 of the 1971 Group Annuity Mortality Table and 11/12 of the 1994 Group Annuity Mortality Table.

The 2014 valuation phased in the 1994 Group Annuity Mortality Table for postretirement mortality. This resulted in a weighting of 2/12 of the 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

City of Knoxville

Supplementary Information

City of Knoxville

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2018

	Special				
	Employee Benefits	Police Retirement	Urban Revitalization	Revolving Loan	Police Trust
Receipts:					
Property tax	\$ 677,445	213,634	-	-	-
Other city tax	17,442	5,401	-	-	-
Use of money and property	416	736	-	-	137
Intergovernmental	24,920	-	-	-	-
Miscellaneous	-	-	-	-	8,450
Total receipts	720,223	219,771	-	-	8,587
Disbursements:					
Operating:					
Public safety	287,719	202,061	-	-	5,521
Public works	144,664	-	-	-	-
Culture and recreation	189,515	-	-	-	-
Community and economic development	22,814	-	-	-	-
General government	66,496	-	-	-	-
Total disbursements	711,208	202,061	-	-	5,521
Excess (deficiency) of receipts over (under) disbursements	9,015	17,710	-	-	3,066
Change in cash balances	9,015	17,710	-	-	3,066
Cash balances beginning of year	198,924	323,556	3,906	115,745	18,884
Cash balances end of year	\$ 207,939	341,266	3,906	115,745	21,950
Cash Basis Fund Balances					
Nonspendable					
Cemetery perpetual care	\$ -	-	-	-	-
Restricted for other purposes	207,939	341,266	3,906	115,745	21,950
Total cash basis fund balances	\$ 207,939	341,266	3,906	115,745	21,950

See accompanying independent auditor's report.

Revenue				Permanent	
Fire Rescue Donations	Library Gifts/ Memorials	Auld Park Playground Trust	I-Jobs	Cemetery Perpetual Care	Total
-	-	-	-	-	891,079
-	-	-	-	-	22,843
98	75	-	-	127	1,589
-	-	39	-	-	24,959
5,708	1,750	-	-	3,020	18,928
5,806	1,825	39	-	3,147	959,398
6,069	-	-	-	-	501,370
-	-	-	-	-	144,664
-	459	-	-	-	189,974
-	-	-	-	-	22,814
-	-	-	-	-	66,496
6,069	459	-	-	-	925,318
(263)	1,366	39	-	3,147	34,080
(263)	1,366	39	-	3,147	34,080
12,685	15,231	34,227	3,091	273,207	999,456
12,422	16,597	34,266	3,091	276,354	1,033,536
-	-	-	-	276,354	276,354
12,422	16,597	34,266	3,091	-	757,182
12,422	16,597	34,266	3,091	276,354	1,033,536

City of Knoxville

City of Knoxville

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Enterprise Funds

As of and for the year ended June 30, 2018

	Enterprise		
	Storm Water	Airport	Total
Operating receipts:			
Use of money and property	\$ -	81,160	81,160
Charges for service	290,839	-	290,839
Miscellaneous	-	2,385	2,385
Total operating receipts	290,839	83,545	374,384
Operating disbursements:			
Business type activities	20,212	100,677	120,889
Excess (deficiency) of operating receipts over (under) operating disbursements	270,627	(17,132)	253,495
Non-operating receipts (disbursements):			
Intergovernmental	-	85,123	85,123
Capital projects	(132,222)	(125,985)	(258,207)
Net non-operating receipts (disbursements)	(132,222)	(40,862)	(173,084)
Excess (deficiency) of receipts over (under) disbursements	138,405	(57,994)	80,411
Transfers:			
Transfers in	-	574,000	574,000
Change in cash balances	138,405	516,006	654,411
Cash balances beginning of year	170,019	(284,743)	(114,724)
Cash balances end of year	\$ 308,424	231,263	539,687
Cash Basis Fund Balances			
Unrestricted	\$ 308,424	231,263	539,687

See notes to financial statements.

City of Knoxville
Schedule of Indebtedness
Year ended June 30, 2018

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding series 2010C	Sep 20, 2010	1.70-3.00%	\$ 3,640,000
Refunding series 2012A	May 15, 2012	1.00-1.80	1,235,000
Corporate purpose series 2013A	Jun 19, 2013	0.50-1.85	3,360,000
Corporate purpose and refunding series 2016A	Jun 1, 2016	2.00	2,715,000
Corporate purpose series 2018	Mar 20, 2018	2.21-3.40	6,280,000
Total			
General obligation capital loan notes:			
Sewer improvement series 2010D	Nov 18, 2010	2.70%	\$ 710,000
Revenue bonds and notes:			
Sewer series 2010A	*Feb 16, 2010	3.00%	\$ 2,216,056
Sewer refunding series 2015A	Apr 23, 2015	0.90-3.00	3,180,000
Sewer wastewater treatment	*Jun 19, 2015	1.75	2,297,000
Total			
Capital lease:			
Ambulance	Jun 16, 2016	3.40%	\$ 186,110

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
1,285,000	-	235,000	1,050,000	34,130	-
550,000	-	180,000	370,000	8,810	-
2,065,000	-	330,000	1,735,000	28,105	-
2,495,000	-	220,000	2,275,000	49,900	-
-	6,280,000	-	6,280,000	-	-
\$ 6,395,000	6,280,000	965,000	11,710,000	120,945	-
\$ 465,000	-	70,000	395,000	12,556	-
2,125,000	-	122,000	2,003,000	63,750	-
2,970,000	-	260,000	2,710,000	63,680	-
2,163,000	-	135,000	2,028,000	37,852	-
\$ 7,258,000	-	517,000	6,741,000	165,282	-
\$ 148,847	-	35,367	113,480	5,061	-

City of Knoxville
Bond and Note Maturities
June 30, 2018

General Obligation Bonds							
Year Ending June 30,	Corporate Purpose and Refunding		Series 2012A Refunding		Series 2013A Corporate Purpose		
	Issued Sep 20, 2010		Issued May 15, 2012		Issued Jun 19, 2013		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2019	2.50%	\$ 245,000	1.60%	\$ 185,000	1.20%	\$ 335,000	
2020	2.65	255,000	1.80	185,000	1.20	340,000	
2021	2.80	270,000			1.50	345,000	
2022	3.00	280,000			1.70	355,000	
2023		-			1.85	360,000	
2024		-					-
2025		-					-
2026		-					-
2027		-					-
2028		-					-
2029		-					-
2030		-					-
2031		-					-
2032		-					-
2033		-					-
2034		-					-
2035		-					-
2036		-					-
2037		-					-
Total		<u>\$ 1,050,000</u>		<u>\$ 370,000</u>		<u>\$ 1,735,000</u>	

See accompanying independent auditor's report.

Revenue Bonds/Notes					
Year Ending June 30,	Series 2010A Sewer		Series 2015A Sewer Refunding		
	Issued Feb 16, 2010		Issued Apr 23, 2015		
	Interest Rates	Amount	Interest Rates	Amount	
2019	3.00%	\$ 126,000	1.35%	\$ 260,000	
2020	3.00	130,000	1.60	270,000	
2021	3.00	135,000	1.80	275,000	
2022	3.00	139,000	2.00	290,000	
2023	3.00	144,000	2.20	300,000	
2024	3.00	148,000	2.40	310,000	
2025	3.00	153,000	2.60	320,000	
2026	3.00	158,000	2.80	335,000	
2027	3.00	163,000	3.00	350,000	
2028	3.00	168,000			-
2029	3.00	174,000			-
2030	3.00	180,000			-
2031	3.00	185,000			-
Total		<u>\$ 2,003,000</u>		<u>\$ 2,710,000</u>	

See accompanying independent auditor's report.

Series 2016A Corporate Purpose and Refunding Issued Jun 1, 2016			Series 2018 Corporate Purpose Issued Mar 20, 2018			General Obligation Notes Series 2010D Sewer Improvement Note Issued Nov 18, 2010		
Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount	Total
2.00%	\$ 160,000		2.21%	\$ 300,000		2.70%	\$ 75,000	1,300,000
2.00	215,000		2.32	340,000		2.70	75,000	1,410,000
2.00	220,000		2.39	350,000		2.70	80,000	1,265,000
2.00	225,000		2.43	355,000		2.70	80,000	1,295,000
2.00	230,000		2.51	370,000		2.70	85,000	1,045,000
2.00	235,000		2.58	370,000				605,000
2.00	240,000		2.68	390,000				630,000
2.00	245,000		2.79	395,000				640,000
2.00	250,000		2.87	400,000				650,000
2.00	255,000		2.94	415,000				670,000
	-		3.01	370,000				370,000
	-		3.07	380,000				380,000
	-		3.14	240,000				240,000
	-		3.21	245,000				245,000
	-		3.27	255,000				255,000
	-		3.31	265,000				265,000
	-		3.34	270,000				270,000
	-		3.37	280,000				280,000
	-		3.40	290,000				290,000
	\$ 2,275,000			\$ 6,280,000			\$ 395,000	12,105,000

Sewer Wastewater Treatment Issued Jun 19, 2015		
Interest Rates	Amount	Total
1.75%	\$ 138,000	524,000
1.75	141,000	541,000
1.75	144,000	554,000
1.75	147,000	576,000
1.75	149,000	593,000
1.75	152,000	610,000
1.75	156,000	629,000
1.75	159,000	652,000
1.75	162,000	675,000
1.75	165,000	333,000
1.75	168,000	342,000
1.75	172,000	352,000
1.75	175,000	360,000
	\$ 2,028,000	6,741,000

City of Knoxville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	2018	2017	2016	2015
Receipts:				
Property tax	\$ 3,278,739	3,244,449	3,163,894	2,952,466
Tax increment financing	605,296	571,856	516,947	531,120
Other city tax	1,046,783	1,137,517	1,037,181	1,684,688
Licenses and permits	669,066	653,541	661,710	84,821
Use of money and property	56,769	41,068	35,683	36,753
Intergovernmental	1,818,141	1,107,919	1,196,943	951,196
Charges for service	926,035	870,382	964,298	969,587
Special assessments	4,136	5,451	6,279	7,497
Miscellaneous	528,048	705,729	245,553	370,466
Total	<u>\$ 8,933,013</u>	<u>8,337,912</u>	<u>7,828,488</u>	<u>7,588,594</u>
Disbursements:				
Operating:				
Public safety	\$ 2,263,598	2,135,749	2,351,445	2,274,531
Public works	1,790,243	847,096	1,190,738	748,405
Health and social services	-	-	-	-
Culture and recreation	1,282,690	1,144,213	1,153,498	1,095,737
Community and economic development	250,107	245,541	588,485	351,878
General government	446,103	465,034	544,330	523,097
Debt service	1,934,567	1,685,972	1,510,074	1,558,643
Capital projects	1,439,095	1,736,599	1,544,971	1,425,184
Total	<u>\$ 9,406,403</u>	<u>8,260,204</u>	<u>8,883,541</u>	<u>7,977,475</u>

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
2,908,791	2,822,795	2,875,400	2,711,600	2,611,363	2,497,122
354,277	242,252	318,340	320,902	535,285	485,945
1,576,472	1,220,128	769,827	871,465	864,232	921,047
29,897	20,168	42,818	21,320	15,678	25,294
50,721	5,753	3,884	65,552	77,345	94,747
825,512	999,335	939,941	1,690,173	1,136,792	1,082,430
872,637	909,812	873,937	745,648	639,917	627,050
7,693	6,247	2,756	7,433	10,874	5,231
267,730	286,362	206,141	203,690	380,054	411,077
6,893,730	6,512,852	6,033,044	6,637,783	6,271,540	6,149,943
1,839,305	1,744,882	1,587,150	1,589,674	1,506,286	1,403,437
776,841	787,203	984,298	860,317	783,903	766,763
-	-	-	18,477	15,151	12,869
1,070,274	1,032,710	1,045,852	1,124,962	1,141,093	1,081,081
193,813	222,805	214,944	55,290	102,266	500,686
458,176	506,108	556,329	577,811	503,383	498,032
1,511,847	878,514	1,376,919	1,246,308	1,974,144	1,760,500
2,282,626	1,579,394	1,632,554	2,759,921	1,334,631	676,191
8,132,882	6,751,616	7,398,046	8,232,760	7,360,857	6,699,559

City of Knoxville

City of Knoxville
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2018

Grantor/Program	CFDA Number	Pass-through Entity Identifying Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0051-013-2014	\$ 23,557
Airport Improvement Program	20.106	3-19-0051-015-2018	84,682
Total direct			108,239
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205	STP-U-4040(608)--70-63	810,371
Iowa Department of Public Safety - Governor's Traffic Safety Bureau:			
State and Community Highway Safety Grant	20.600	17-402-MOPT Task 13-00-00	2,615
State and Community Highway Safety Grant	20.600	18-402-MOPT Task 13-00-00	5,591
			8,206
Total indirect			818,577
Total			\$ 926,816

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of City of Knoxville under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of City of Knoxville, it is not intended to and does not present the financial position, changes in financial position or cash flows of City of Knoxville.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The City of Knoxville did not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standard**



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2018. Our report expressed unmodified opinions on the financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Knoxville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Knoxville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Knoxville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Knoxville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs as items II-A-18 and II-B-18 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items II-C-18 and II-D-18 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Knoxville's Responses to the Findings

The City of Knoxville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Knoxville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

November 28, 2018



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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited City of Knoxville, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on City of Knoxville's major federal program for the year ended June 30, 2018. City of Knoxville's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for City of Knoxville's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Knoxville's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of City of Knoxville's compliance.

Opinion on the Major Federal Program

In our opinion, City of Knoxville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The management of City of Knoxville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Knoxville's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Knoxville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as item III-A-18, we consider to be a material weakness.

City of Knoxville's response to the internal control over compliance finding identified in our audit is reported in the accompanying Schedule of Findings and Questioned Costs. City of Knoxville's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


MARY MOSIMAN, CPA
Auditor of State

November 28, 2018

City of Knoxville
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements of the governmental activities, the business type activities, each major fund and the aggregated remaining fund information prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. An adverse opinion was expressed on the financial statements of the aggregate discretely presented component units.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) City of Knoxville did not qualify as a low-risk auditee.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals identified may have control over the following areas for which no compensating controls exist.

- (1) Cash – handling petty cash and reconciling.
- (2) Investments – recording, custody and record-keeping.
- (3) Long-term debt – recording and reconciling, including compensated absences.
- (4) Disbursements – preparing disbursements, check signing, recording and reconciling.
- (5) Payroll – preparing and recording payroll, control of undistributed warrants and maintaining personnel files. In addition, there is no independent review of pay rates and payroll tax rates entered on the City's accounting system or electronic fund transfers made for payroll tax.
- (6) Receipts – opening mail, collecting receipts and recording receipts with independent reconciliation of recorded receipts to the deposit.
- (7) Journal entries – independent review of non-recurring entries.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregations of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Response – The City continues to work towards segregating duties as much as possible. Often times it's difficult with a smaller staff.

Conclusion – Response accepted.

II-B-18 Service Organizations

Criteria – An effective internal control system provides for internal controls related to reconciling the service organizations billings, collections and receivables to ensure the accuracy of sewer and rescue collections and receivables.

Condition – The Knoxville Municipal Waterworks provides billing and collection services for the City's sewer fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

The City contracts with an outside company to bill and collect rescue receipts. The rescue receipts are remitted to the City. A reconciliation of billings, collections and receivable balances is not prepared. The City does not perform procedures to ensure the accuracy and completeness of the rescue receipts remitted to the City.

Cause – Policies have not been established and procedures have not been implemented to reconcile sewer and rescue billings, collections and receivables.

Effect – This condition could result in unrecorded or misstated sewer and rescue receipts and receivables.

Recommendation – The City should perform an independent review of the reconciliation of billings, collections and receivable balances for sewer fees received from the Waterworks.

The City should request a reconciliation of rescue billings, collections and receivable balances for rescue fees.

Response – City staff will continue to work with Knoxville Waterworks to provide a comprehensive report for review. This was requested by the City previously and the Waterworks had difficulty producing such a report from their accounting system.

City staff has had discussions with the rescue department on review of these reports in the future.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

II-C-18 Records of Account

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by maintaining appropriate accounting records and reconciling the Recreation Centers bank and book balances with those of the City.

Condition – The Recreation Center maintained a checking account separate from the City Clerk's records. The transactions are reported to the City monthly and balances periodically transferred into the City's checking account. However, the balance of the checking account of \$19,313 at the end of the fiscal year was not included in the City's records.

Cause – Procedures have not been designed and implemented to ensure appropriate accounting records are maintained or to ensure all accounts are reconciled and the amounts are recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds.

Effect – Inadequate accounting records can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." The year-end balance of the separate checking account maintained by the Recreation Center should be included in the City records.

Response – A new employee has begun to do these reconciliations and it was not relayed to her to make the transfer prior to the end of the fiscal year. This will be done in the future.

Conclusion – Response accepted.

II-D-18 Electronic Data Processing Systems

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer system and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have a written disaster recovery plan.

Cause – Management has not required a complete written disaster recovery plan addressing financial continuity, storage of plan and copies of user documentation and policy and procedures manuals to be kept off site and documentation of whether the plan has been adequately tested.

Effect – Lack of a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Recommendation – The City should develop written disaster recovery plan.

Response – The City has requested example plans from other cities and will work towards creation of their own.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

City of Knoxville
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

No items were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 20.205: Highway Planning and Construction
Pass-through Entity Identifying Number: STP-U-4040(608)—70-63
Federal Award Year: 2018
Prior Year Finding Number: N/A
U.S. Department of Transportation
Passed through Iowa Department of Transportation

III-B-18 Segregation of Duties – The City did not properly segregate collection, deposit and
(2018-001) record-keeping for receipts, including those related to federal programs.
See item II-A-18(6).

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-18 Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget had been amended and disbursements exceeded in June after the amendment was completed. The timing of the amendment will be reviewed closer in the future.

Conclusion – Response accepted.

- IV-B-18 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- IV-C-18 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- IV-D-18 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
KNIA KRLS Inc, owned by father-in-law of City Council Member, Megan Suhr	Advertising	\$ 9,842

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the City Council Member’s father-in-law may represent a conflict of interest since total transactions were more than \$1,500 during the fiscal year.

Recommendation – The City should seek legal counsel to determine the disposition of this matter.

Response – KNIA KRLS is the only radio station in Knoxville. The City will seek legal counsel on the determination of this matter.

Conclusion – Response accepted.

- IV-E-18 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

- IV-F-18 City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three of four meetings tested were not published within fifteen days. In addition, the City did not publish a summary of receipts, as required by Chapter 372.13(6) of the Code of Iowa. Also, City Council entered one closed session without documenting a purpose, as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and publish City Council meeting minutes within fifteen days, as required. In addition, the City should publish a summary or receipts as required by the Code of Iowa. Also, the City should ensure City Council meeting minutes document the purpose for entering a closed session.

Response – Timing of publication can be difficult with one paper that only publishes once a week. Staff will do their best to assure minutes get published in a timely manner and include a summary of receipts. The purpose of closed sessions will be documented in the minutes.

Conclusion – Response accepted.

- IV-G-18 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- IV-H-18 Revenue Bonds/Notes – No instances of non-compliance with the revenue bond/note resolutions were noted.

- IV-I-18 Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1.

However, the amount reported as TIF debt outstanding was understated by approximately \$329,384.

Recommendation – The City should ensure the amounts reported in the Annual Urban Renewal Report are accurate.

Response – This was a calculation error and will be corrected in the future.

Conclusion – Response accepted.

- IV-J-18 Unclaimed Property – Chapters 556.8 and 556.11 of the Code of Iowa require each City to report and remit obligations, including checks, outstanding for more than two years to the Office of Treasurer of State annually. The City did not remit these obligations as required.

Recommendation – Outstanding checks should be reviewed annually and items over two years old should be remitted to the Office of Treasurer of State as required.

Response – Staff will look into how to submit the outstanding checks to the Office of Treasurer of State.

Conclusion – Response accepted.

City of Knoxville

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

IV-K-18 Interfund TIF Loan - In accordance with an approved resolution dated December 12, 2012 establishing an interfund loan between the Enterprise, Sewer Fund and the Special Revenue, Urban Renewal Tax Increment Fund, annual repayments are required. While the principal on the loan was repaid, the interest portion was not repaid. Also, \$183,284 of the loan principal and interest was not certified as a TIF obligation with the County.

Recommendation - The City should pay the interest on the interfund loan in accordance with the resolution. Also, the City should certify the remaining portion of the loan principal and interest as a TIF obligation.

Response - The unreported interest was an oversight on staff. We were unaware of the interest that should've been accruing. The City will pay the interest. Staff will certify the principal and interest needed.

Conclusion - Response accepted.

City of Knoxville

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Karen L. Brustkern, CPA, Senior Auditor II
Taylor I. Cook, Staff Auditor
Jason J. Miller, Staff Auditor
Andrew J. Salwolke, Staff Auditor
Matthew K. Nnanna, Assistant Auditor

A handwritten signature in black ink, appearing to read "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly distinguishable.

Andrew E. Nielsen, CPA
Deputy Auditor of State